

ORDER NO. 810

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Mark Acton, Vice Chairman;
Tony L. Hammond; and
Nanci E. Langley

Periodic Reporting
(Proposals Four through Eight)

Docket No. RM2011-12

NOTICE OF PROPOSED RULEMAKING ON ANALYTICAL
PRINCIPLES USED IN PERIODIC REPORTING
(PROPOSALS FOUR – EIGHT)

(Issued August 17, 2011)

On August 8, 2011, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate an informal rulemaking proceeding to consider changes in the analytical methods approved for use in periodic reporting.¹

¹ Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Four - Eight), August 8, 2011 (Petition).

Proposal Four. Proposed Change in Method of Reporting Revenue, Pieces, and Weight for Inbound International Mail

Currently, in its Revenue, Pieces, and Weight (RPW) report, the Postal Service estimates the revenue that it receives from the terminal dues system for six major Inbound International Mail products by developing a distribution key for those products from the most recently completed International Cost and Revenue Analysis (ICRA) report. It applies that key to international mail revenues in the relevant General Ledger accounts. Where it relies on this method to estimate product revenues in the RPW, it does not estimate pieces or weight for those products.

Since Quarter 2 of FY 2010, the Postal Service has been using the Foreign Postal Settlement (FPS) system to settle its international mail accounts. With respect to inbound settlement, FPS compiles revenue, piece, and weight information by product stream from billing documents/electronic messaging. FPS posts revenue to the book of accounts based on actual inbound transactions processed, and on estimates of transactions received, but not yet processed. While the settlement process is not completed until months after the close of the calendar year, the FPS system accrues revenue monthly, based on the estimate of mail volume received that month. When final settlement occurs the following year, the difference between the accrued amount and the final settlement amount is posted to the appropriate General Ledger account. *Id.* at 6.

The Postal Service has developed software that maps FPS inbound product streams to the categories used in the Inbound International RPW. Proposal Four would replace the ICRA distribution key method of estimating the revenue of inbound products with the more detailed and timely data mapped from FPS. The Postal Service explains that an incidental benefit of the proposed mapping is that it would align RPW reporting

categories more closely with the Mail Classification Schedule than is the case currently.²

The Postal Service also proposes to report prior-year settlement revenues and currency gains and losses in Other Mailing Services Revenue (Market Dominant) and Other Shipping Services Revenue (Competitive). The Postal Service asserts that these entries have no direct correlation with current-period activity, and therefore would distort RPW relationships if they were to continue to be included in the current-period report. *Id.*

The Postal Service summarizes the benefits to be gained from adopting Proposal Four. It asserts that the proposal would more closely align revenue, pieces, and weight reported in the Inbound International RPW with current-year activity; that it would report such information at a greater level of detail than is done currently (including volume and weight information for the first time); that it would separate current-year revenue from prior-year revenue and currency gains and losses; and that it would correct some current misreporting of inbound product data as outbound. *Id.* at 4.

The Postal Service illustrates the impact of Proposal Four in Attachments B and C to the Petition. It asserts that the impacts would be minor, and would be confined to Inbound International Mail. *Id.* at 10-12.

Proposal Five. Assigning Flats Sequencing System (FSS) and Automated Flats Sorting Machine (AFSM) 100 Data to Separate Cost Pools

Currently, cost data for Flats Sequencing System (FSS) operations are assigned to cost pools for the AFSM 100 3-digit Management Operating Data System (MODS) operation. Proposal Five would assign FSS cost data to FSS-specific cost pools. The Postal Service supports the separate break out of FSS costs by noting that the FSS is a

² *Id.* at 8. As examples, the Postal Service notes that Inbound Return Receipt and Inbound Restricted Delivery are currently misreported as part of Outbound Ancillary Services, and that its proposed mapping would correct this. *Id.* at 5.

major new flats processing system that is becoming widely deployed. It also notes that the mail mix in FSS operations can differ from that in AFSM 100 operations because FSS can be used to sequence non-saturation carrier route flats, which would bypass AFSM 100 operations. *Id.* at 13.

Proposal Five would assign the Stand-Alone Mail Prep machine (MODS operation 530) operation and the FSS Sorter (MODS operation 538) distribution operations to the same cost pool. The Postal Service argues that they are interrelated in the same manner that the prep operations for the AFSM 100 (MODS operation 140) and the AFSM 100/Automated Induction distribution operation are interrelated. It notes that assigning FSS operations to cost pools separate from AFSM cost pools would affect cost tracking not just in MODS processing plants, but in Network Distribution Centers (NDCs) as well. *Id.* at 13-14.

The Postal Service asserts that there are insufficient data in FY 2010 to estimate the impact of separating FSS and AFSM 100 operations into separate cost pools. *Id.* at 14.

Proposal Six. Disaggregating the Cost Pools in Non-MODS Post Offices

Cost pools for post offices in the MODS system are defined by Labor Distribution Codes or MODS operation number. They are generally more disaggregated than the cost pools in non-MODS post offices. Those cost pools are defined by activity data recorded in In-Office Cost System (IOCS) Question 18. According to the Postal Service, responses to IOCS Question 18 can be used to identify additional activities in non-MODS post offices that correspond to cost pools in MODS post offices. Proposal Six would add several cost pools to non-MODS post offices that have analogues in MODS post offices. The new proposed cost pools are listed at page 18 of the Petition.

The Postal Service says that disaggregating cost pools in non-MODS post offices to more closely resemble those in MODS post offices will make it easier to analyze the

cost of certain post office activities without having to use special studies to disaggregate the non-MODS cost pools. As an example, the Postal Service asserts that separating the sorting of mail to a post office box from other manual distribution activities would make it easier to distinguish shape-related work from mixed-shape work at box sections. Similarly, it asserts that the costs of reply mail and special services will not be over-stated if postage due and other accountable mail work were to be separated from miscellaneous processing that is unrelated to reply mail or special services. *Id.* at 17.

Proposal Six would primarily impact certain special services. Those impacts are shown in Excel file “Props6&7.Mail.Proc.Impact.xls” attached to the Petition.

Proposal Seven. Changing Distribution Keys for Mixed Mail Costs in Allied Cost Pools in MODS Processing Plants

Prior to Docket No. R97-1, mail processing was broken down into broad functions (outgoing, incoming, and transit). The disaggregation of these broad mail processing cost functions into roughly 40 distinct 3-digit MODS operations raised concerns that there were biases in the frequency with which IOCS tally takers can directly identify a specific product as having been handled in an operation, and the frequency with which they can only identify mixed mail as having been handled in that operation. For example, using the product distribution of direct tallies as a proxy for the product distribution of mixed mail tallies could be biased if the presence of some products in a given operation is more easily identified than the presence of other products because of the manner in which they are packaged and presented to the Postal Service.³ *Id.* at 18.

The risk of over-identification bias seems greatest for allied operations in MODS processing plants. In allied operations, the proportion of direct tallies to mixed mail tallies is relatively low because mail is often handled in mixed-product containers. To

³ See, e.g., the rebuttal testimony of Halstein Stralberg (TW-TR-1) in Docket No. R97-1.

avoid the risk of over-identification bias, the Commission recommended in Docket No. R97-1 that the cost associated with mixed mail tallies in allied MODS operations be distributed to products in proportion to all direct tallies recorded within a facility group, rather than the direct tallies recorded within a given MODS operation. See PRC Op. R97-1, ¶¶ 3145-46. This distribution key is called the “all pools” key because it includes the direct tallies from all operations in the facility group. Using the “all pools” key, mixed mail costs associated with allied labor in MODS processing plants are currently distributed in proportion to direct tallies from all MODS cost pools; mixed mail costs associated with allied labor in NDCs are distributed in proportion to direct tallies from all NDC cost pools; and mixed mail costs associated with allied labor in non-MODS offices are distributed in proportion to direct tallies from all non-MODS cost pools. *Id.* at 18-19.

For the MODS office group, the “all pools” key includes direct tallies from mail processing operations at MODS post offices and mail processing operations at International Service Centers (ISCs). The Postal Service asserts that including these tallies in the “all pools” key makes that key less representative of the actual incidence of products that are handled in mixed mail form in allied operations. Therefore, it argues, these direct tallies should be excluded from the key. *Id.* at 20-21.

The Postal Service argues that including direct tallies from MODS post offices in the “all pools” key is a likely source of bias because, as destination delivery units (DDUs), those offices handle a substantial amount of “bypass” mail. “Bypass” mail includes mail that avoids processing plants because it is dropshipped directly to DDUs. Examples of mail processing activities at the DDU that involve “bypass” mail include separating bundles from direct DDU pallets or incoming secondary sorting of Package Service mail. The Postal Service reasons that the IOCS tally taker can easily associate such activity with a single product, making it likely that it generates direct tallies when observed at MODS DDUs at greater frequency than those same products are likely to appear as mixed mail in allied operations at MODS processing plants. *Id.* at 19-20.

Therefore, the Postal Service contends, removing direct tallies recorded at MODS post offices from the “all pools” distribution key is likely to reduce bias in that key.

The Postal Service notes that removing direct tallies recorded at MODS post offices from the “all pools” key would make the treatment of those direct tallies consistent with the treatment direct tallies recorded at non-MODS post offices. Direct tallies from non-MODS post offices are currently excluded from the “all pools” key. *Id.* at 20.

An ISC is a facility that specializes in processing International Mail. The Postal Service argues that including direct tallies from an ISC in the “all pools” key is a likely source of bias because an ISC processes some products that are not handled at MODS processing plants. It notes that those products are more likely to be processed manually, and therefore are likely to generate direct tallies at greater frequency than those same products would appear in mixed mail form at MODS processing plants. Therefore, it argues, removing direct tallies observed at ISCs is likely to reduce bias in the “all pools” key. *Id.*

The Postal Service states that the benefit of reducing bias in the “all pools” key as Proposal Seven would do is likely to outweigh the potential loss of information about the contents of mixed mail at processing plants. *Id.* at 21.

The Postal Service estimates the impact of Proposal Seven in Tab “P7.Allied Mixed Mail Impact” of the Excel file “Props6&7.Mail.Proc.Impact.xls.” It notes that Proposal Seven would shift costs between products, but would have no affect on the variability of those product costs. *Id.* at 21-22.

Proposal Eight. Dropping the Assumption that All Express Mail is Accountable Mail

In the City Carrier Cost System (CCCS), “accountable” mailpieces are defined as pieces that require customer contact. Currently, all Express Mail pieces delivered on letter routes are treated as accountable pieces. This stems from what was standard procedure in delivering Express Mail, which was to attempt to contact the customer regardless of the “Signature Waiver” option. This is no longer standard procedure, according to the Postal Service. Now, it explains, “Signature Waiver” Express Mail is scanned and then either placed in the mail receptacle or left “in a secure location.” *Id.* at 23. The CCCS “Signature Waiver” data element now identifies whether “Signature Waiver” Express Mail was placed in the receptacle, left in a secure place, or resulted in customer contact. Proposal Seven would recognize these distinctions, thereby reducing the proportion of Express Mail that is “accountable” mail. *Id.* Although Proposal Seven would remove some Express Mail from the accountable mail cost pool, the cost of scanning the Express Mail removed would be included with the cost of that mail. *Id.* at 24.

The Postal Service estimates that Proposal Seven would reduce the cost of Express Mail by three-tenths of a percent, and increase the cost of other products by up to two-tenths of a percent. *Id.*

The Petition, Attachments, and Library References estimating the impact of Proposals Four through Eight are available for review on the Commission’s website, <http://www.prc.gov>. In several instances, the Postal Service’s documentation of its impact estimates fails to demonstrate how those estimates were derived. The Postal Service will be directed to provide all spreadsheets and computer programs that are needed to derive the estimates that it has provided in connection with the Petition.

Pursuant to 39 U.S.C. 505, Natalie Ward is designated as Public Representative to represent the interests of the general public in this proceeding. Comments are due no later than September 9, 2011.

It is ordered:

1. The Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Four - Eight), filed August 8, 2011, is granted.
2. The Commission establishes Docket No. RM2011-12 to consider the matters raised by the Postal Service's Petition.
3. The Postal Service is directed to provide all spreadsheets and computer programs that are needed to derive the estimates that it has provided in connection with its Petition no later than August 22, 2011.
4. Interested persons may submit comments on Proposals Four through Eight no later than September 9, 2011.
5. The Commission will determine the need for reply comments after review of the initial comments.
6. Natalie Ward is appointed to serve as the Public Representative to represent the interests of the general public in this proceeding.

7. The Secretary shall arrange for publication of this Notice in the *Federal Register*.

By the Commission.

Shoshana M. Grove
Secretary